

UNCLAS OTTAWA 001765

SIPDIS

STATE FOR EB/TPP/BTA AND WHA/CAN

DEPT PASS USTR - MELLE

COMMERCE FOR 4320/MAC/WH/ON/OIA/BENDER AND
ITA/IA/TERPSTRA

E.O. 12958: N/A

TAGS: ETRD PREL CA

SUBJECT: SOFTWOOD LUMBER: CANADIAN REACTIONS TO USDOC
POLICY BULLETIN

REF: 02 OTTAWA 844

¶1. SUMMARY: Canadian reactions to the USDOC policy bulletin on softwood lumber, which was released by Undersecretary Grant Aldonas on June 18, were mildly positive except in Quebec where there was broad disappointment that the section concerning that province was excluded from the document. Whatever reactions may emerge, nothing in the bulletin can have come as a surprise given the extensive process that generated it, and there is currently no alternative "exit strategy" from the dispute. END SUMMARY.

¶2. In March 2002 (reftel), when USDOC imposed anti-dumping and countervailing duties on softwood lumber from Canada, Mission Canada witnessed some of the strongest criticism of U.S. trade policy in a decade. The fact that the release of the policy bulletin made scarcely a ripple in the media shows just how much the political temperature around this issue has cooled. Yet the economic stakes are as high as ever. Indeed, on June 20 two major Quebec-based players, Domtar and Tembec, announced a restructuring of their money-losing mills in Eastern Canada (this announcement was reported without mention of the policy bulletin).

¶3. Quebec business and political players expressed disappointment that their province was not covered by the bulletin, and focused on responding to this situation, which press commentators interpreted as threatening to isolate Quebec from other provinces in negotiations with U.S. interests. Quebec Forest Industry Council head Georges Courteau said Quebec "must pursue talks with a set of new ideas to put on the table." Quebec Natural Resources Minister Sam Hamad said the province would make use of the comment period to submit further explanation of Quebec's practices.

¶4. Representatives of integrated, western-based producer Weyerhaeuser Canada, when interviewed the day before publication, were supportive of the policy bulletin process, and said they also support the use of interim measures for up to two years or so provided they are part of an "exit strategy" leading to a permanent solution.

¶5. B.C. Lumber Trade Council President John Allan was quoted calling the bulletin "a significant step" and said he was "pretty confident we can show the Americans we've got market-based policy reform in B.C." "Obviously we are pleased it has come out," Allan said. "By and large it is consistent with our understanding on what we have discussed with the U.S." Allan was quoted saying that the interim aspects of U.S. proposals for resolving the dispute are more problematic, and also that while he did not like the numbers in the U.S. proposal, it could be enough to get both sides back to the negotiating table in coming weeks.

¶6. B.C. Forests Minister Mike De Jong portrayed the bulletin as a necessary step. "For the first time we are seeing from the U.S. federal administration a clear acceptance of the notion that we need to establish in clear terms the rules upon which we are going to get off this trade dispute treadmill. That has been a fundamental objective of ours in British Columbia from the outset."

CELLUCCI